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JAPAN

• Fair Trade Coommission Reports on Corporate Groups
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* Fair Trade Coommission Reports on Corporate Groups

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[Text] **Foreword**

There are two types of corporate groups in Japan. One is centered around companies which belonged to the former *zaibatsu* [industrial conglomerates] of the prewar era (hereafter referred to as former *zaibatsu* groups). The Mitsui, Mitsubishi, and Sumitomo groups are former *zaibatsu* groups. The other type consists of a bank and its corporate customers (hereafter referred to as bank-centered groups). The Fuji, Sanwa, and Dai-Ichi Kangyo groups are bank-centered groups. Since these six groups are large in scale and hold an important position in the national economy, they are referred to as the "six major groups."

These groups do not have a tightly knit relationship centered around a holding company, as did the prewar *zaibatsu*, because the Anti-Monopoly Law prohibits the existence of holding companies, and because there are limitations on financial institutions' equity holdings. However, each of these groups has a core corporation, such as a bank. Each is a cooperative association of influential companies representing a wide variety of industries, and each is a group united by financial and personal ties. All these groups have a strong influence on the national economy, and the effect they have on the economic order cannot be ignored. In the past, this committee has done several surveys of these groups, in order to gain a better understanding of them.

In 1979, we did a fairly detailed survey of the state of these groups in FY 1977, and another survey, in 1983, covering FY 1981.

Since the 1983 survey, there have been significant changes in the corporate group situation, accompanying changes in the industrial structure of the national economy, internationalization, and changes in corporations' fund-raising structure.

In light of this situation, we have conducted the survey upon which this report is based for the following purposes: to gain a better understanding of the ties between members of the six major groups, as well as to understand the recent activities of the groups, to examine the position held and the role played in the national economy by the six major groups, and to obtain information which will be useful for anti-monopoly policy-making purposes.

Furthermore, for this survey, in addition to the topics covered in the past we have added two new topics: a survey of joint capital investment companies established by the six major groups, and a survey of fund-raising transactions between members of the six major groups and securities firms.

1. An Outline of Survey Methods

(1) Corporations Surveyed

Opinions differ as to how far to extend the range when determining which companies should be included in a corporate group. However, since each group has a presidents' club, we have taken the view that companies represented in these clubs form the basic corporate elements of a group, and it is these companies which are the main focus of this survey.

Furthermore, where relevant, we have included subsidiaries or affiliates of companies which are members of the presidents' clubs in this survey.

(2) Survey Dates and Procedures

A. Dates of the Survey

Our survey covers FY 1985 (representing the dates on which surveyed companies closed their books, falling between 1 July 1985 and the last day of June 1986) and FY 1987 (representing the dates on which surveyed companies closed their books, falling between 1 July 1987 and the last day of June, 1988). When appropriate, we also used information predating the survey periods. The survey began in October 1988.

B. Survey Procedures

Information for this survey was obtained from existing documents such as securities reports, as well as from verbal reports from the executive office of the group or from the company which performs executive functions for the group, other documents provided by the groups, and the answers to questionnaires submitted to member companies of the presidents' club of each of the six major corporate groups.

2. Presidents' Club Meetings and Other Meetings Held by the Six Major Groups

(1) The Presidents' Clubs of the Six Major Groups and Their Members

The first presidents' club *Hakusuikai* was formed by the Sumitomo Group in about 1951, and most of the others had been established by about 1970. However, the Dai-Ichi Kangyo Group's presidents' club, *Sankinkai*, was formed in 1978, mainly from the members of three presidents' clubs, the Dai-ichi Bank-affiliated Furukawa *Sansuikai* and Kawasaki *Mutsumikai*, and the members of the Nippon Kangyo Bank-affiliated 15-Company *Kanginkai*, all of which had been established before the merger between Dai-ichi Bank and Nippon Kangyo Bank.

An outline of these presidents' clubs is shown in Table 1.

Table 1 - Date of Establishment and Number of Member Companies in Each Presidents' Club (As of 30 September 1988)

Group Name	Mitsui	Mitsubishi	Sumitomo	Fuji	Sanwa	Dai-Ichi Kangyo
Association Name	Nikikai	Mitsubishi Kin-yokai	Hakusuikai	Fuyokai	Sansuikai	Sankinkai
Date of Establish-ment	Oct 1961	c. 1955	c. 1950-51	Jan 1966	Feb 1967	Jan 1978
Number of Member Compa-nies	24	29	20	29	44	47

(Based on information provided by the respective groups)

These presidents' clubs, in which the presidents or chairmen of member companies participate, were formed to promote friendship between the top-level executives of member companies. They meet regularly to discuss and decide upon the presenting of lectures, charitable contributions to be made by the group, public relations, and to exchange information of a general nature. Though some new members have joined, and some former members have withdrawn from these presidents' clubs since they have been established, there has been no noticeable change in their activities.

In all the groups, companies participating in the presidents' club represent a wide range of businesses, including banks and general trading firms.

As of 1 September 1988, the total number of corporate members in the six major groups' presidents' clubs was 193. The breakdown is as follows: Mitsui Group (24), Mitsubishi Group (29), Sumitomo Group (20), Fuji Group (29), Sanwa Group (44), and Dai-Ichi Kangyo Group (47) (see Table 2). However, since some companies belong to more than one group, the total number of members is 188, when duplications are eliminated.

Since the 1983 survey (covering the period starting in January, 1982), only one company has withdrawn from a presidents' club (Sumitomo Aluminum Refining Co. withdrew from Sumitomo Group's *Hakusuikai*).

Seven companies have become new members of the six major groups' presidents' clubs since the 1983 survey, as follows: Mitsubishi Cable Industries (Mitsubishi), Kyocera Corporation, Suntory Ltd., Zenitaka Corporation, and HOYA Corporation (Sanwa Group), and Orient Finance Co. and Kyowa Hakko Kogyo Co. (Dai-Ichi Kangyo Group) (see Table 3).

Table 2 - An Overview of Corporate Members of the Presidents' Clubs of the Six Major Groups (As of 30 September 1988)

Group	Mitsui Group	Mitsubishi Group	Sumitomo Group	Fuji Group	Sanwa Group	Dai-Ichi Kangyo Group
Category	Nikikai-24 mem-bers	Mitsubishi Kin-yokai-29 mem-bers	Hakusuikai-20 members	Fuyokai-29 mem-bers	Sansuikai-44 members	Sankinkai-47 members
Finance and Insurance	Mitsui Bank	Mitsubishi Bank	Sumitomo Bank	Fuji Bank	Sanwa Bank	Dai-Ichi Kangyo Bank
	Mitsui Trust & Banking Co	Mitsubishi Trust & Banking Corp	Sumitomo Trust & Banking Co	Yasuda Trust & Banking Co	Toyo Trust & Banking Co	Asahi Mutual Life Insurance Co
	Mitsui Mutual Life Insurance Co	Meiji Mutual Life Insurance Co	Sumitomo Life Insurance Co	Yasuda Mutual Life Insurance Co	Nippon Life Insurance Co	Fukoku Mutual Life Insurance Co
	Taisho Marine & Fire Insurance Co	Tokio Marine & Fire Insurance Co	Sumitomo Fire & Marine Insurance Co	Yasuda Fire & Marine Insurance Co		Taisei Fire & Marine Insurance Co
						Nippon Kangyo Kakumaru Secu-rities Co
Trading Firms	Mitsui & Co	Mitsubishi Corp	Sumitomo Corp	Marubeni Corp	Nichimen Corp	C Itoh & Co
	Mitsukoshi, Ltd				Nissho Iwai Corp	Nissho Iwai Corp
					Iwatani & Co	Kanematsu-Gosho Ltd
					Takashimaya Co	Kawasho Corp
						*Seibu Depart-ment Stores, Ltd

Table 2 - An Overview of Corporate Members of the Presidents' Clubs of the Six Major Groups (As of 30 September 1988) (Continued)

Forestry			Sumitomo Forestry Co			
Mining	Mitsui Mining Co	TcSumitomo Coal Mining Co				
	*Hokkaido Colliery Steamship Co					
Construction	Mitsui Construction Co	*Mitsubishi Construction Co	Sumitomo Construction Co	Taisei Corp	Ohbayashi Corp	Shimizu Corp
	Sanki Engineering Co				Toyo Construction Co	
					(Zenitaka Corp)	
					Sekisui House, Ltd	
Foods	Nippon Flour Mills Co	Kirin Brewery Co		Nisshin Flour Milling Co	Itoham Foods Inc	
				Sapporo Breweries Ltd	(*Suntory Ltd)	
				Nichirei Corp		
Textiles				Nisshinbo Industries Inc	Unitaka, Ltd	
				Toho Rayon Co		
Paper and Pulp	Oji Paper Co	Mitsubishi Paper MJills, Ltd		Sanyo-Kokusaku Pulp Co		Honshu Paper Co
Chemicals	Mitsui Toatsu Chemicals, Inc	Mitsubishi Chemical Industries, Ltd	Sumitomo Chemical Co	Showa Denko	Teijin Ltd	Denki Kagaku Kogyo Co
	Mitsui Petrochemical Industries	Mitsubishi Gas Chemical Co	Sumitomo Bakelite Co	Kureha Chemical Industry Co	Tokuyama Soda Co	(Kyowa Hakko Kogyo Co)
	Toray Industries	Mitsubishi Petrochemical Co		Nippon Oil & Fats Co	Sekisui Chemical Co	Nippon Zeon Co
		Mitsubishi Plastics Industries Ltd			Ube Industries, Ltd	Asahi Denka Kogyo
		*Mitsubishi-Monsanto Chemical Co			Hitachi Chemical Co	Sankyo Co
		Mitsubishi Rayon Co			Tanabe Seiyaku Co	Shiseido Co
					Fujisawa Pharmaceutical Co	Lion Corp
					Kansai Paint Co	Asahi Chemical Industry Co
Petroleum and Petroleum Products		Mitsubishi Oil Co		Tao Nenryo Kogyo	Cosmo Oil Co	Showa Shell Sekiyu
Rubber Products				Toyo Tire & Rubber Co	Yokohama Rubber Co	
Ceramics and Cement	Onoda Cement Co	Asahi Glass Co	Nippon Sheet Glass Co	Nihon Cement Co	Osaka Cement Co	Chichibu Cement Co
		Mitsubishi Mining & Cement Co	Sumitomo Cement Co		(Kyocera Corp)	

Table 2 - An Overview of Corporate Members of the Presidents' Clubs of the Six Major Groups (As of 30 September 1988) (Continued)

Steel	Japan Steel Works, Ltd	Mitsubishi Steel Manufacturing Co	Sumitomo Metal Industries	NKK Corp	Kobe Steel, Ltd	Kobe Steel, Ltd
					Nisshin Steel Co	Kawasaki Steel Corp
					Nakayama Steel Works, Ltd	Japan Metals & Chemicals Co
					Hitachi Metals, Ltd	
Non-Ferrous Metals	Mitsui Mining & Smelting Co	Mitsubishi Metal Corp	Sumitomo Metal Mining Co		Hitachi Cable, Ltd	Nippon Light Metal Co
		*Mitsubishi Aluminum	Sumitomo Light Metal Industries			Furukawa Co
		(Mitsubishi Cable Industries)	Sumitomo Electric Industries			Furukawa Electric Co
Standard Machinery and Tools		Mitsubishi Kakoki Kaisha	Sumitomo Heavy Industries	Kubota, Ltd	NTN Toyo Bearing Co	Niigata Engineering Co
				Nippon Seiko		Iseki & Co
						Ebara Corp
Electrical Equipment	Toshiba Corp	Mitsubishi Electric Corp	NEC Corp	Hitachi, Ltd	Hitachi, Ltd	Hitachi, Ltd
				Oki Electric Industry Corp	Iwasaki Electric Co	Fuji Electric Co
				Yokogawa Electric Corp	Sharp Corp	Yaskawa Electric Manufacturing Co
					Nitto Denko Corp	Fujitsu, Ltd
						Nippon Columbia Co
Transportation Equipment	Toyota Motor Corp	Mitsubishi Heavy Industries		Nissan Motor Co	Hitachi Zosen Corp	Kawasaki Heavy Industries
	Mitsui Engineering & Shipbuilding Co	*Mitsubishi Motors corp (listed 12/88)			Shin Meiwa Industry Co	Ishikawajima-Harima Heavy Industries Co
					Daihatsu Motor Co	Isuzu Motors Ltd
Precision Machinery and Tools		Nikon Corp		Canon Inc	(HOYA Corp)	Asahi Optical Co
Real Estate	Mitsui Real Estate Development Co	Mitsubishi Estate Co	Sumitomo Realty & Development Co	Tokyo Tatemono Co		
Ground Transportation				Tobu Railway Co	Hankyu Corp	Nippon Express Co
				Keihin Electric Express Railway Co	Nippon Express Co	
Marine Transportation	Mitsui O.S.K. Lines	Nippon Yusen		Showa Line, Ltd	Yamashita-Shinnihon Steamship Co	Kawasake Kisen Kaisha, Ltd
Warehousing and Transportation-Related Industries	Mitsui Warehouse Co	Mitsubishi Warehouse & Transportation Co	Sumitomo Warehouse Co			Shibusawa Warehouse Co

Table 2 - An Overview of Corporate Members of the Presidents' Clubs of the Six Major Groups (As of 30 September 1988) (Continued)

Services					Orient Leasing Co	(Orient Finance Co)
						Korakuen Co

Notes: 1. The total number of corporate members in the presidents' clubs is 193 but, since some companies belong to two or more groups' presidents' clubs, the actual figure is 188 (Hitachi, Ltd. is a member of the Fuji, Sanwa, and Dai-Ichi Kangyo Groups' presidents' clubs; Nissho Iwai, Kobe Steel, and Nippon Express each are members of both the Sanwa and Dai-Ichi Kangyo groups' presidents' clubs); 2. • represents an unlisted company; 3. Companies within parentheses have become group members since 1982; 4. Sumitomo Aluminum Refining Co withdrew from the Sumitomo Group's presidents' club in 1986; 5. Hokkaido Steamship Colliery Co. has temporarily withdrawn from the Sumitomo Groups' presidents' club; Toyota Motor Corp. participates as an observer; 6. Source: company reports

Table 3 - Number of Corporate Members in the Six Major Groups (Unit: company)

Group Name	Mitsui	Mitsubishi	Sumitomo	Fuji	Sanwa	Dai-Ichi Kangyo
Fiscal Year						
1977	2[illegible]	28	21	29	36	45
	(19)	(24)	(17)	(25)	(33)	(39)
1981	24	28	21	29	40	45
	(20)	(24)	(17)	(25)	(37)	(39)
1987	24	29	20	29	44	47
	(20)	(25)	(16)	(25)	(41)	(41)

Notes: 1. Numbers within parentheses represent the number of companies which are not financial organizations; 2. Source: company reports

(2) Other Meetings

In addition to meetings held by the presidents' clubs, many of the groups organize special meetings for managing directors, planning directors, managers of general affairs, or administration managers. At these meetings, practical discussions are held on possible charitable contributions to be made by the group, or joint participation in exhibitions. These meetings also provide opportunities for the exchange of information (similar to that which takes place at presidents' club meetings), and to cultivate friendships.

The former *zaibatsu* groups also hold meetings (intended mainly for members of presidents' clubs) for members using a common trademark or trade name. The purpose of these meetings is to grant the use of trademarks or trade names, and to preserve the integrity of trademarks and trade names by forbidding their unauthorized use. Meetings are also held to arrange group publicity.

3. Intra-Group Ties in the Six Major Groups

The elements which bind corporate members in each of these groups together are personal relationships (formed when executives hold posts in more than one company, or are assigned to another member company), and contractual relationships (formed through ongoing transactions, financing, or technical tie-ups).

In this survey, we focused on the following relationships: shareholding relationships, relationships formed when executives hold posts in more than one company, or are assigned to another member company, and business relationships with financial organizations involving financing, etc.

(1) Shareholding

An examination of shareholding in the six major groups, the chief element of the connections between members, reveals the following:

A. Average Equity Share

We attempted to ascertain the extent to which members of the six major groups own stock in other companies in the same group. Except for companies involved in a parent company-subsidiary relationship or one equivalent to that, we found that there is practically no instance in which that share exceeds 10 percent. Our calculations of the average shareholding ratio in FY 1987 are shown in Table 4.

Table 4 - Changes in the Average Shareholding Ratio (In Percentages)

	FY 1977	FY 1981	FY 1985	FY 1987
Group Category				
Former zaibatsu group average	1.93	2.04	1.76	1.70
Bank-centered group average	2.04	1.51	1.39	1.33
Six major group average	1.99	1.78	1.58	1.52

Notes: 1. Average shareholding ratio equals total shareholding ratio for all members of a group divided by the number of existing shareholding relationships within that group times 100; 2. Group average equals total average shareholding ratio for all groups divided by the number of groups; 3. Source: company reports, securities reports

Here, the "average shareholding ratio" is the per-company average shareholding, when a member (hereafter, "member" refers to a company belonging to the presidents' club of a group) holds shares in another company or companies belonging to the same group. It is an index of the extent of the ties among companies belonging to the same group.

This index, or average shareholding ratio, based on all members of a group, is an average of 1.70 percent for former *zaibatsu* groups, 1.33 percent for bank-centered groups, and 1.52 percent for the six major groups together. These figures indicate that the ties between group members, at least in terms of shareholding, are not very close. Furthermore, the ratios have declined since FY 1981.

B. Frequency of Shareholding Relationships

To determine the extent of intra-group shareholding relationships, we calculated shareholding relationship frequency. Our results are shown in Table 5.

Table 5 - Changes in the Shareholding Relationship Frequency (In Percentages)

	FY 1977	FY 1981	FY 1985	FY 1987
Group Category				
Former zaibatsu group average	63.11	66.37	72.53	73.45
Bank-centered group average	25.55	34.92	34.76	34.16
Six major group average	44.34	50.64	53.65	53.81

Notes: 1. Shareholding relationship frequency equals number of existing shareholding relationships within a group divided by the number of possible shareholding relationships within that group times 100; 2. Group average equals total shareholding relationship frequency for all groups divided by the number of groups; 3. Figures for FY 1977 include only listed companies and life insurance companies; 4. Source: company reports, securities reports

Here, "shareholding relationship frequency" represents the amount of stock issued by individual members of a group that is held by companies in that group, or the number of companies within one group which hold the stock of other members of that same group. These percentages indicate the extent of intra-group shareholding relationships.

The frequency of shareholding relationships in FY 1987 was an average of 73.45 percent for former *zaibatsu* groups, and 34.16 percent for bank-centered groups. This is a trend which we have been seeing for some time, and shows that shareholding relationships occur to a much greater extent in former *zaibatsu* groups than in bank-centered groups, and that a wide range of shareholding relationships has been formed within the former *zaibatsu* groups.

Shareholding relationship frequency in the six major groups was 50.64 percent in FY 1981, but had risen three points, to 53.81 percent, by FY 1987. While the average shareholding ratio has declined (as described in A.), shareholding relationship frequency has increased. This may show that, while group members are reducing the percentage of shares held in individual group member companies, they are inclined to broaden the range of member companies in which they own shares.

C. Cross-Holding of Shares

As we mentioned in the previous section, the rate of stock ownership is low, measured in terms of group member company units. However, since there are shareholding relationships between most of the group members, we investigated the amount of cross-holding, which shows to what extent a group member's stock is held by other members of the same group. Changes in cross-holding which have occurred since 1977 are as shown in Table 6.

Here, the "cross-holding ratio" represents the average percentage of stocks in one member company held by all other group members, and indicates the extent of the connections between the group members and the group.

Table 6 - Changes in the Cross-Holding Ratio (In Percentages)

	FY 1977	FY 1981	FY 1985	FY 1987
Group Category				
Former zaibatsu group average	28.86	32.18	29.41	28.93
Bank-centered group average	18.85	18.75	17.39	16.36
Six major group average	32.86	25.47	23.40	22.65

Notes: 1. Cross-holding ratio equals total percentage of shares held by members of a group out of all shares issued by presidents' club members of that group divided by the number of presidents' club members in the group times 100; 2. Group average equals total cross-holding ratio for all groups divided by the number of groups; 3. For FY 1977, figures represent only listed companies and life insurance companies; 4. Source: company reports, securities reports

For FY 1987 the cross-holding ratio was 28.93 percent for former *zaibatsu* groups, and 16.36 percent for bank-centered groups. In other words, the cross-holding ratio for former *zaibatsu* groups was more than 10 points higher than that for bank-centered groups. According to these figures, there are close ties between members of former *zaibatsu* groups by this measure, as well as by shareholding relationship frequency.

The amount of cross-holding in the six major groups peaked in FY 1981 at 25.47 percent and, since then, has been on the decline, falling to 22.65 percent in FY 1987.

Possible reasons for the decline in cross-holding are as follows. (1) In 1977, Article 11 of the Anti-Monopoly Law was revised, lowering the upper limit on stock ownership in any company by financial organizations (excluding life insurance companies) from 10 percent to

5 percent, encouraging financial organizations (excluding life insurance companies) to dispose of shares in excess of 5 percent. (2) Also in 1977, a measure was introduced to Article 9, Section 2 of the Anti-Monopoly Law limiting the total amount of stock ownership, causing general trading firms to reduce the percentage of shares held in member companies. (3) Companies which had not previously had close connections with groups joined presidents' clubs. (4) Companies which had been established with group capital withdrew from presidents' clubs. And (5) although the number of issued shares increased due to stock issues on the part of group members, acquisitions of members' stock to match that amount were not made.

D. Large Shareholders

The percentage of large shareholders (top shareholder, top three, top five, and top ten shareholders) in the member companies of groups, which are members of the same group, is shown in Table 7.

Table 7 - Percentage of Major Shareholders Accounted for by Members of the Same Group

Shareholder Ranking	1			1 - 3		
	FY 1977	FY 1981	FY 1987	FY 1977	FY 1981	FY 1987
Group Category						
Former zaibatsu group average	79.78	78.27	77.10	73.60	73.57	74.27
Bank-centered group average	56.46	60.51	48.52	48.41	49.75	50.38
Six major group average	68.12	69.39	62.81	61.01	61.66	62.33
Shareholder Ranking	**1 - 5**			**1 - 10**		
	FY 1977	FY 1981	FY 1987	FY 1977	FY 1981	FY 1987
Group Category						
Former zaibatsu group average	68.25	69.74	67.21	56.81	56.28	51.10
Bank-centered group average	39.04	38.33	40.08	30.38	31.70	29.70
Six major group average	53.65	54.04	53.65	43.59	43.99	40.40

Notes: 1. Percentage of large shareholders belonging to a group equals number of large shareholders which are members of that group divided by the number of members in that group times 1 (or 3,5,10) times 100; 2. Group average equals total percentage of large shareholders in all groups accounted for by members of the same group divided by the number of groups; 3. Figures in this table represent those group members which are shareholders and listed companies; 4. Source: securities reports

According to these figures, the majority shareholder in group member companies is a member of the same group an average of 77.10 percent for former *zaibatsu* groups, 48.52 percent for bank-centered groups, and 62.81 percent for the six major groups together.

Moreover, when we expand the range to the top three, the top five, and the top ten shareholders, we see that the percentage declines as the range increases. However, an examination of major shareholders up to the tenth position shows that quite a few major shareholders are members of the same group (an average of 51.10 percent for former *zaibatsu* groups, 29.70 percent for bank-centered groups, and 40.40 percent for the six major groups together).

Comparing these figures to those for FY 1981, we see that out of the top ten shareholders, in an average for the six major groups, the percentage accounted for by members of the same group has decreased approximately 3.6 percentage points, from 43.99 percent to 40.40 percent. However, this reduction is due mainly to the fact that the percentage accounted for by shareholders belonging to the same group, and which held the sixth to tenth-ranking positions has decreased.

We then checked the percentage of stock ownership by the top ten shareholders. The results are shown in Table 8

Table 8 - Percentage of the Total Shareholding Ratio for Members of the Same Group Accounted for by the Shareholding Ratio of Major Shareholders

Item	(a) Total Stock Ownership Percentage of Top Ten Shareholders					
	FY 1977	Average	FY 1981	Average	FY 1987	Average
Group Category						
Former zaibatsu group average	39.09	100.0	38.51	100.0	38.56	100.0
Bank-centered group average	41.46	100.0	39.53	100.0	39.17	100.0
Six major group average	40.28	100.0	39.02	100.0	38.87	100.0
Item	**(b) Total Stock Ownership Percentage of Members of the Same Group**					
	FY 1977	Average; b divided by a	FY 1981	Average; b divided by a	FY 1987	Average; b divided by a
Group Category						
Former zaibatsu group average	24.94	63.80	24.26	63.00	22.40	57.92
Bank-centered group average	16.16	38.98	15.51	32.94	13.83	35.34
Six major group average	20.55	51.02	19.87	50.92	18.12	46.63

Notes: 1. Shareholding ratio for large shareholders within the same group equals number of shares held by shareholders ranking in the top ten, out of all shares issued by members of each group, which are also members of that group divided by the total number of shares issued by members of that group times 100; 2. The figures in this table represent those shareholders among the members of each group which are listed companies; 3. Group average equals total shareholding ratio of the top ten shareholders in all groups (which are members of the same group) divided by the number of groups; 4. Source: securities reports

Out of the top ten shareholders, the percentage of shareholders which are also members of the same group has reached an average of 22.40 percent for former *zaibatsu* groups, 13.83 percent for bank-centered groups, and 18.12 percent for the six major groups.

Comparing these figures to the shareholding percentage for major stockholders in FY 1981, the percentage of stock ownership by members of the same group has decreased slightly, from an average of 19.87 percent, to 18.12 percent for the six major groups.

E. Shares Held by Financial Organizations and General Trading Firms

The average rate of intragroup shareholding by financial organizations and general trading firms (i.e., the average shareholding rate per company when a financial organization or general trading firm owns shares in another member company of the same group) is shown in Table 9.

Table 9 - Average Shareholding Ratio Percentage for Financial Organizations and General Trading Firms

Financial Organization		City Banks	Trust Banks	Life Insurance Companies	Casualty Insurance Companies	All Financial Organizations	General Trading Firms
Group Category							
Former zaibatsu group average	FY 1981	4.6	3.1	5.3	2.5	15.8	2.5
	FY 1987	4.1	3.0	5.0	2.4	14.7	2.5
Bank-centered group average	FY 1981	5.4	2.0	3.4	1.3	10.9	1.0
	FY 1987	4.4	2.4	3.4	1.2	10.0	0.6
Six major group average	FY 1981	5.1	2.5	4.1	1.9	12.8	1.6
	FY 1987	4.3	2.7	3.9	1.8	11.8	1.4

Notes: 1. Average shareholding ratio of financial organizations (general trading firms) equals total percentages of shares of members of a group held by financial organizations (general trading firms) divided by the number of shareholding relationships in which financial organizations (general trading firms) hold the shares of members of that group times 100; 2. Source: securities reports, company reports

Financial organizations have a high intragroup shareholding rate, with city banks at the top (4.3 percent), followed by life insurance companies (3.9 percent), trust banks (2.7 percent), and casualty insurance companies (1.8 percent). As for changes in the extent of stock ownership, the amount for trust banks has increased by 0.2 percentage points, while that for city banks, life insurance companies, and casualty insurance companies has decreased by 0.8, 0.2, and 0.1 percentage points, respectively. As a result, the intragroup shareholding ratio for all financial organizations has decreased slightly since FY 1981 (from 12.8 percent to 11.8 percent).

The reason for the significant decrease in the city bank shareholding rate is mainly that, with the previously mentioned revision of Article 11 of the Anti-Monopoly Law in 1977, banks were prohibited from ownership of shares of any company in excess of 5 percent, encouraging them to dispose of shares held in excess of that amount.

An analysis of these according to group category shows that in the former *zaibatsu* groups, the shareholding ratio for life insurance companies exceeds that of city banks while, in the bank-centered groups, banks have a higher shareholding ratio. This may reflect the difference in the importance of the life insurance companies' role in forming ties through the ownership of stock in group member companies.

The shareholding ratio for general trading firms is, in general, conspicuously lower than that for financial organizations, and experienced a further decrease (from 1.6 percent to 1.4 percent) between FY 1981 and FY 1987. This may also have resulted from limits placed on the total amount of stock ownership in the 1977 revision of the Anti-Monopoly Law.

It is significant that the shareholding ratio for general trading firms by group category is high in the former *zaibatsu* groups, and quite low in the bank-centered groups.

(2) Assignment of Executives

We will now discuss the second element in the forming of intra-group ties, the assignment of executives, or the holding of posts in more than one member company by an executive. The "assigned executives" to whom we refer here are executives or other personnel of one group member assigned to another member of the same group, as well as executives or other personnel employed by a group member, who join another group member as an executive within two years after their retirement.

A. Percentage of Companies Receiving Assignees

The percentage of companies which have hired executives of another member of the same group (hereafter referred to as "percentage of companies receiving assignees") is shown in Table 10.

Table 10 - Percentage of Companies Receiving Assignees

Group Category		Former Zaibatsu Group	Bank-Centered Group	Six Major Group
Category		Average	Average	Average
Percentage of firms to which executives are assigned from other firms in the same group	FY 1977	71.22	60.07	65.64
	FY 1981	77.42	67.63	72.53
	FY 1985	65.80	71.25	68.53
	FY 1987	64.13	71.25	67.69
Percentage of firms to which executives from banks have been assigned	FY 1977	62.05	48.96	55.51
	FY 1981	59.92	58.02	58.97
	FY 1985	55.96	60.32	58.14
	FY 1987	55.96	59.61	57.79
Percentage of firms to which executives from trading companies have been assigned	FY 1977	23.26	3.52	13.39
	FY 1981	21.29	1.57	11.43
	FY 1985	18.52	1.47	10.00
	FY 1987	18.52	1.46	9.99

Notes: 1. Percentage of companies receiving assignees equals number of firms to which executives are assigned from members (banks, trading firms) of a group divided by the number of group members times 100; 2. Group average equals total percentage of companies in all groups receiving assignees divided by the number of groups; 3. Figures for FY 1977 represent only listed companies and life insurance companies.; 4. Since there are instances in which companies receive assignees from both banks and trading companies, the total percentage of companies receiving assignees from banks and trading companies may exceed the group total.; 5. Source: securities reports, information provided by the respective companies

In FY 1987, 60 percent or more of the corporate members of both former *zaibatsu* groups and bank-centered groups took on executives from another group member. Furthermore, more than 50 percent of the members took on executives from a bank which is a member of the same group.

The percentage of companies receiving assignees from general trading firms is significantly lower than that receiving assignees from banks. Nevertheless, the figure for former *zaibatsu*-affiliated groups is relatively high, at 18.52 percent, while that for bank-centered groups is only 1.46 percent.

Changes since 1977 in the percentage of companies receiving assignees show a general leveling off. The percentage of companies receiving assignees from general trading firms seems to be declining.

B. Percentage of Assigned Executives

The percentage accounted for by the number of executives assigned from one member to another member of the same group, out of the total number of executives in all member companies (hereafter referred to as the "assigned executive percentage") is shown in Table 11.

Table 11 - Assigned Executive Percentage

Classification		Former Zaibatsu Groups	Bank-Centered Groups	Six Major Group Average
Percentage of executives assigned from firms belonging to the same group	FY 1977	10.54	6.04	8.29
	FY 1981	11.39	5.98	8.69
	FY 1985	7.75	5.25	6.50
	FY 1987	8.65	3.17	7.13
Percentage of executives assigned from banks	FY 1977	3.95	3.17	3.56
	FY 1981	3.60	3.50	3.55
	FY 1985	3.97	3.30	3.64
	FY 1987	4.18	3.65	3.92
Percentage of executives assigned from trading firms	FY 1977	1.39	0.30	0.85
	FY 1981	0.94	0.13	0.54
	FY 1985	0.63	0.12	0.38
	FY 1987	0.82	0.06	0.44

Notes: 1. Assigned executive percentage equals number of executives assigned from members of a group (banks, trading firms) divided by the total number of executives in the group times 100; 2. Group average equals total assigned executive percentage for all groups divided by the number of groups; 3. Figures for FY 1977 represent only listed companies and life insurance companies; 4. Source: securities reports, company reports

The assigned executive percentage was an average of 7.13 percent (approximately 2.0 persons) in 1978, 8.29 percent in 1981, and 8.69 percent in 1987, and appears to be decreasing slightly.

However, the number of executives assigned from banks (3.56 percent in 1977, 3.55 percent in 1981, and 3.92 percent in 1987) has increased, though only slightly. It is noteworthy that the percentage has generally remained stationary.

The number of executives assigned from general trading firms was quite a bit lower than that of those assigned from banks in 1977 (0.85 percent), and has continued to decrease since then.

(3) Transactions Between Financial Organizations and Other Members of the Same Group

The third element in the forming of ties between group members is intragroup transactions. We did a special survey of these transactions in the previous survey (1983) (see note below).

In the current survey, as in the past, we examined the state of financial transactions, such as loans, between financial organizations, which form the core of a group and other group members.

However, it is necessary to be aware that companies use other methods in addition to loans to raise capital, such as the issuing of corporate bonds or stock, and that the proportion of direct financing has increased recently.

Note: according to the results of the previous survey, the averages for intragroup transactions in the six major groups (excluding companies in the business of finance) were as follows: sales-dependence transactions, 10.8 percent (former *zaibatsu* groups, 13.4 percent; bank-centered groups, 8.6 percent), purchasing-dependence transactions, 11.7 percent (former *zaibatsu* groups, 14.8 percent; bank-centered groups, 9.1 percent) (FY 1981).

A. Transactions Reflecting Borrowing Dependence

We looked at the percentage of the total amount borrowed by the members of each group from financial organizations belonging to the same group (hereafter referred to as borrowing-dependence percentage) in order to determine intragroup ties formed through financing. The results are shown in Table 12.

The percentage of borrowing dependence on financial organizations within the same group in FY 1987 was generally higher in the former *zaibatsu* groups than in the

(1) Joint Capital Companies

One of the themes of our 1979 survey was cooperative ventures into new businesses in the six major groups.

In this survey, we endeavored to determine the current status of joint capital companies surveyed in 1979, and of joint capital companies established after 1983. This part of our survey was aimed at joint capital companies established in Japan.

A. The Current Status of Joint Capital Companies Surveyed in 1979

In 1979, we surveyed joint capital companies established in five industries: atomic power, marine development, the development of natural resources, regional development, and the information industry.

Among these five industries, many of the joint capital companies in the marine development and regional development fields are dormant, and the others are not doing well. Joint capital companies engaged in atomic power and the development of natural resources (mainly, exploration for and extraction of oil) are not doing particularly well, but their operations continue, supposedly in hopes for the future. On the other hand, joint capital companies in the information industry are all thriving.

Of the joint capital companies in the leasing business, Orient Leasing, a member of the Sanwa Group (formerly Orix Co.) has been listed on the Tokyo Stock Exchange. Firms established by other groups have all developed into prominent leasing companies.

B. Joint Capital Companies Established Since 1983

Since 1983, the six major groups have established a total of eight joint capital companies (here, a "joint capital company" is one jointly established by three or more companies, excluding financial organizations, which are members of the same group, and which have jointly made capital subscriptions of 50 percent or more, and does not include subsidiaries established by one company which provides 50 percent or more of capital).

Two of the eight companies, Mitsui Aluminum Industries (established in February 1986) and Mitsubishi Liquefied Gas (established in January 1986) had existed previously as joint capital companies established by the respective groups. Since their performance had been poor, they were reestablished so that they could be rebuilt with group support. Since these companies used the group trade name, they were financed by five (or six) companies belonging to the same group, so that they could be rebuilt.

An example of a joint capital company established so that a group could make inroads into a new area of business is Space Communications, established in March, 1987, by the Mitsubishi Group. Space Communications is a joint capital company established to commercialize satellite communications. One hundred percent of the company's capital was provided by 29 companies belonging to the presidents' club (Mitsubishi Kinyokai) of the Mitsubishi Group.

Three other joint capital companies (two in the leisure and resort business, and one connected with the VAN [Value Added Network]) have been established, but these companies are not yet in full operation.

(2) Meetings Concerning New Business Operations

Each of the six major groups, in addition to presidents' club or presidents' club-related meetings, holds meetings to discuss new technologies or large-scale projects, which are attended by the appropriate people, mainly from member companies.

According to reports from the six major groups, two such major projects for which this type of meeting has been held are the New Kansai Airport and the Tokyo Bay Coastal Development Project. Meetings concerning these two projects are attended by companies which have dealings with the financial organizations or general trading firms connected with the project, in addition to group members, and it is not unusual for one company to participate in the meetings of more than one group.

Three of the groups hold meetings on Japan-China trade, for the purpose of furthering interchanges with China. However, these meetings are different from project-related meetings, and the participants are almost entirely group members.

There are meetings held to discuss research on new technologies, such as data communications and biotechnology, as well as meetings geared to planners and technical personnel.

5. Connections Between the Six Major Groups and Securities Firms Formed Through Fund-Raising

As we mentioned previously, there is an increasing amount of fundraising in the capital market (issuance of stocks and corporate bonds), and companies' relationships with securities firms are becoming more important.

None of the four major securities firms (Nomura Securities Co., Nikko Securities Co., Daiwa Securities Co., and Yamaichi Securities Co.) is a member of the presidents' clubs of any of the six major groups.

Therefore, to get a better grasp on the relationship between groups and securities firms in corporate bond issues, we prepared a questionnaire on transactions between group members and securities firms.

(1) Securities Firms Which Are the Main Underwriters for Corporate Bonds Issued in Japan

The relationship between group members and securities firms is shown in Table 14, in order of the number of times a securities firm has been the main underwriter for a group member.

Table 14 - Securities Firms Which Are Main Underwriters When Stocks and Corporate Bonds Are Issued (in Japan) (Since 1983)

Ranking	1	2	3	4	5
Group					
Mitsui	Nomura Securities	Nikko Securities	Yamaichi Securities	Daiwa Securities	—
Mitsubishi	Nikko Securities	Yamaichi Securities	Nomura Securities	Daiwa Securities	—
Sumitomo	Daiwa Securities	Nomura Securities	—	—	—
Fuji	Yamaichi Securities	Nomura Securities	Nikko Securities	Daiwa Securities	—
Sanwa	Nomura Securities	Nikko Securities	Daiwa Securities	Yamaichi Securities	—
Dai-Ichi Kangyo	Nomura Securities	Yamaichi Securities	Nikko Securities	Daiwa Securities	Nippon Kangyo Kakumaru Securities

Notes: 1. Ranking represents the number of times a company has been the main underwriter, lead underwriter (in joint underwritings), or sole underwriter; 2. Source: company reports

The ranking of securities firms, which represents the number of times a securities firm has been the main underwriter for a group member, is as follows: Nomura Securities (Mitsui Group), Nikko Securities (Sumitomo Group), Yamaichi Securities (Fuji Group), Nomura Securities (Sanwa Group), and Nomura Securities (Dai-Ichi Kangyo Group). These securities firms surpass other securities firms by far, and there appears to be an established trend, as far as the main underwriter for each group member is concerned.

(2) Securities Firms Which Are the Main Underwriters for Corporate Bonds Issued Overseas

We looked at the situation relating to the chief financial organizations used when group members issue corporate bonds overseas from the same point of view which we used to examine the securities firms used as chief underwriters when corporate stocks and bonds are issued in Japan. The results are shown in Table 15. (Note: no stocks have been issued overseas by group members since 1983.)

Table 15 - Financial Organizations Which Are Main Underwriters When Corporate Bonds Are Issued (Overseas) (Since 1983)

Ranking	1	2	3	4	5
Group					
Mitsui	Nomura Securities	Swiss Bank Corp	Credit Suisse	Union Bank of Switzerland	Mitsui Bank
Mitsubishi	Nikko Securities	Yamaichi Securities	Union Bank of Switzerland	Credit Suisse	Mitsubishi Bank
Sumitomo	Daiwa Securities	Credit Suisse	Swiss Bank Corp	Yamaichi Securities	Nikko Securities
Fuji	Yamaichi Securities	Nomura Securities	Nikko Securities	Union Bank of Switzerland	Swiss Bank Corp
Sanwa Bank	Nomura Securities	Daiwa Securities	Yamaichi Securities	Union Bank of Switzerland	Credit Suisse
Dai-Ichi Kangyo	Credit Suisse	Yamaichi Securities	Union Bank of Switzerland	Namura Securities	Nikko Securities

Notes: 1. Names of Japanese firms are those used when they are incorporated overseas; 2. Ranking shows the number of times a company has been the main underwriter, the lead underwriter (in joint underwritings), or the sole underwriter, regardless of whether the company is Japanese or foreign; 3. Source: company reports

Among the financial organizations acting as main underwriters, Japanese banks incorporated overseas, which are group members, have gained a firm foothold. Just as they act as main underwriters for stocks or corporate bonds issued in Japan, the overseas corporations of Nomura Securities (for the Mitsui Group), Nikko Securities (for the Mitsubishi Group), Daiwa Securities (for the Sumitomo Group), Yamaichi Securities (for the Fuji Group) and, again, Nomura Securities (for the Sanwa Group) have taken the lead, leaving other financial organizations far behind.

Furthermore, for the Dai-Ichi Kangyo Group, the overseas corporation of Yamaichi Securities holds second place, following first-ranking Credit Suisse, and Nomura Securities is in fourth place, following the Swiss Bank Corp.

Based on this evidence, we can state that there is a trend for specific securities firms to take on the issuing of stocks for members of each group.

(3) Financing of and Shareholding in the Four Major Securities Firms

The situation regarding the financing of and shareholders in the four major securities firms (Nomura Securities, Yamaichi Securities, Daiwa Securities, and Nikko Securities) is shown in Table 16.

Table 16 - The Four Leading Securities Firms as Shareholders and Short-Term Borrowing
(Units: Percent, 100 Million Yen)

Company Name	Nomura Securities		Nikko Securities		Yamaichi Securities		Daiwa Securities	
Category								
Top 10 shareholders	**Toyo Trust & Banking**	2.67	**Mitsubishi Bank**	3.20	**Fuji Bank**	3.78	**Sumitomo Trust & Banking**	4.68
	Sanwa Bank	2.42	Industrial Bank of Japan	3.02	Mitsubishi Bank	3.78	**Sumitomo Bank**	3.34
	Mitsui Bank	2.42	Fuji Bank	3.02	Industrial Bank of Japan	3.78	Industrial Bank of Japan	3.30
	Industrial Bank of Japan	2.29	Tokai Bank	3.02	**Yasuda Trust & Banking**	3.15	Long-Term Credit Bank of Japan	3.30
	Long-Term Credit Bank of Japan	2.29	Mitsui Trust & Banking	2.89	Dai-Ichi Mutual Life Insurance	3.13	Norin Chuo Kinko	3.22
	Nippon Life Insurance	2.26	**Mitsubishi Trust & Banking**	2.89	Nippon Credit Bank	2.99	Yasuda Trust & Banking	3.03
	Mitsui Trust & Banking	1.84	**Meiji Mutual Life Insurance**	2.74	Nippon Life Insurance	2.79	Nippon Life Insurance	2.97
	Dai-Ichi Kangyo Bank	1.64	Nippon Life Insurance	2.03	Dai-Ichi Kangyo Bank	2.49	Taiyo Mutual Life Insurance	2.96
	Sumitomo Trust & Banking	1.37	Long-Term Credit Bank of Japan	1.85	Fukoku Mutual Life Insurance	2.37	Fuji Bank	1.85
	Mitsubishi Trust & Banking	1.22	Dai-Ichi Mutual Life Insurance	1.84	Mitsubishi Trust & Banking	2.27	Nippon Credit Bank	1.79
Top ten in short-term loans (excluding foreign banks and loans less than 1 billion yen)	**Sanwa Bank**	116.0	**Mitsubishi Bank**	154.5	**Fuji Bank**	99.4	**Sumitomo Bank**	923.7
	Mitsui Bank	108.0	Tokai Bank	151.3	Industrial Bank of Japan	98.4	**Sumitomo Trust & Banking**	392.1
	Daiwa Bank	108.0	**Mitsubishi Trust & Banking**	147.4	Mitsubishi Bank	91.1	Nippon Life Insurance	248.0
	Suruga Bank	100.8	Mitsui Trust & Banking	146.4	Dai-Ichi Kangyo Bank	88.8	Mitsui Bank	218.5
	Dai-Ichi Kangyo Bank	72.0	Industrial Bank of Japan	107.8	Mitsubishi Trust & Banking	84.1	Tokai Bank	204.5
	Yasuda Trust & Banking	31.0			Tokai Bank	57.3	Mitsubishi Bank	202.5
	Toyo Trust & Banking	27.0			Sumitomo Bank	14.9	Industrial Bank of Japan	84.5

Table 16 - The Four Leading Securities Firms as Shareholders and Short-Term Borrowing (Units: Percent, 100 Million Yen) (Continued)

Company Name	Nomura Securities		Nikko Securities		Yamaichi Securities		Daiwa Securities	
	Mitsui Trust & Banking	24.5			Sanwa Bank	14.3	Yamaguchi Bank	50.5
	Taiyo Kobe Bank	23.0			Taiyo Kobe Bank	12.9	Hyogo Sogo Bank	20.0
	Long-Term Credit Bank of Japan	10.0			Bank of Tokyo	11.4	Fuso Sogo Bank	14.4

Notes: 1. Financial organizations whose names are in bold face belong to groups which tend to use said organizations as leading underwriters; 2. Source. securities reports

Thus, the top shareholders in Nomura Securities are group member financial organizations for which Nomura tends to be the main underwriter. For instance, many of the top shareholders are group members, as follows: (1) Toyo Trust and Banking Co. (Sanwa-affiliated, 2.67 percent), (2) Sanwa Bank (2.42 percent), Mitsui Bank (2.42 percent), (6) Nippon Life Insurance Co. (Sanwa-affiliated, 2.26 percent), (7) Mitsui Trust & Banking Co. (1.84 percent), and (8) Dai-Ichi Kangyo Bank (1.64 percent). The same tendency exists between other groups and securities firms. The top two shareholders in Daiwa Securities are Sumitomo Trust & Banking Co. (4.68 percent) and Sumitomo Bank (3.34 percent). The top shareholders in Yamaichi Securities are Fuji Bank (3.78 percent) and Mitsubishi Bank (3.78 percent), and the top shareholder in Nikko Securities is Mitsubishi Bank (3.20 percent).

Furthermore, a large portion of financing (short-term loans) to securities firms now comes from banks which are also top shareholders.

6. The Position of the Six Major Groups in the Japanese Economy

The position of the six major groups in the Japanese economy, which we determined through an examination of companies belonging to presidents' clubs, including their subsidiaries and affiliates, is as follows.

(1) The Current Situation

A. The Position of Companies Belonging to Presidents' Clubs in the Japanese Economy

We determined the position of the six major groups in the Japanese economy, using the following indices: capital, net assets, total assets, revenue, recurring profits, current profits, and the number of employees. We then obtained the percentage accounted for by the six major groups out of the total for each category for all incorporated companies in Japan, with the exception of financial organizations. The results are shown in Table 17.

Table 17 - The Position of the Six Major Groups in the Japanese Economy (Presidents' Club Members) (In Percentages)

Item	Capital	total Assets	Net Assets	Revenue	Recurring Profits	Current Profits	No. of Employees	No. of Firms
Category								
Six major group total (average)	15.19	13.28	15.95	14.68	11.23	12.21	4.56	0.00
	(2.53)	(2.21)	(2.66)	(2.45)	(1.87)	(2.04)	(0.76)	(0.001)
Subtotal for former zaibatsu groups (average)	6.68	5.63	7.36	6.46	6.02	6.09	1.60	0.003
	(2.23)	(1.88)	(2.45)	(2.15)	(2.01)	(2.03)	(0.35)	(0.001)
Subtotal for bank-centered groups (average)	8.51	7.65	8.59	8.22	5.21	6.12	2.95	0.005
	(2.84)	(2.55)	(2.86)	(2.74)	)1.74)	(2.04)	(0.98)	(0.002)
All non-financial corporations	100	100	100	100	100	100	100	100

Notes: 1. Companies engaged in the business of finance have been excluded; 2. Adjustments for companies belonging to more than one group have been made in the subtotals; 3. Average = group total divided by the number of groups; 4. Source: securities reports, Statistical Annual Report of Incorporated Enterprises (Ministry of Finance), company reports.

As of 1 September 1988, the total number of presidents' club members for all six groups was only 163 (hereafter referred to as the "163 firms"), since we excluded companies engaged in finance (banks, insurance companies, etc.) . These 163 firms account for only 0.008 percent of all incorporated companies in Japan (1,929,759). However, based on total assets and revenue, which are often used as indices in describing the overall economic strength of a corporation, these 163 firms account for 13.28 percent of total assets, 14.68 percent of revenue, 15.19 percent of capital. 15.95 percent of net assets, 11.23 percent of recurring profits, 12.21 percent of current profits, and 4.56 percent of the employees, out of all incorporated companies not engaged in finance.

Out of all incorporated companies not engaged in finance, the six major groups (excluding financial organizations) account for an average of 2.21 percent of total assets, 2.45 percent of revenue, 2.53 percent of capital, 2.66 percent of net assets, 1.87 percent of recurring profits, 2.04 percent of current profits, and 0.76 percent of employees.

B. The Position of Presidents' Club Members and Their Subsidiaries and Affiliates in the Japanese Economy

We added subsidiaries (companies in which the parent company has invested more than 50 percent) and affiliates (where the investment is more than 10 percent and less than 50 percent) of the member companies in the six major groups to the 163 firms, and used the indices of capital, total assets, and revenue in FY 1987 to determine how they rank among all Japanese incorporated companies, excluding financial organizations. The results are shown in Table 18.

Table 18 - Position in the Japanese Economy Held by the Six Major Groups (Includes Subsidiaries and Affiliates) (FY 1987)

		No. of Firms (Percent of all non-financial firms)	Capital		Total Assets		Revenue			
Category				Total		Total		Total		Total
Members of the presidents' clubs of the six major groups		163 (0.008 percent)	—		15.19 percent	—	13.28 percent	—	14.68 percent	—
		(157 (0.009))	—		14.57	—	(15.10)	—	(15.78)	—
Subsidiaries	More than 50 percent	4,960 (0.257)	5,123 (0.265 percent)		3.86	19.05 percent	4.21	17.49 percent	3.82	18.50 percent
		(4,271 (0.249))	(4,428 (0.258))		(3.48)	18.05)	(2.05)	(17.15)	(3.55)	(19.33)
Affiliates	25 percent to 50 percent	3,615 (0.187)	8,738 (0.453)		5.78	24.83	4.89	22.38	3.25	21.75
		(4,251 (0.248))	(8,679 (0.506))		(5.75)	(23.80)	(2.65)	(19.80)	(4.01)	(23.34)
	10 percent to 25 percent	3,260 (0.169)	11,998 (0.622)		7.20	32.03	4.57	26.95	3.45	25.20
		(3,278 (0.191))	(11,957 (0.697))		(6.95)	(30.75)	(3.36)	(23.16)	(4.29)	(27.63)
	Six major group average	—	(0.10)		—	(5.12)	—	(4.99)	—	(4.20)

Notes: 1. Companies engaged in the business of finance have been excluded. 2. Numbers in parentheses in the second rows represent figures for FY 1978. 3. Overseas companies have not been included with subsidiaries and affiliates; no adjustment has been made for overlapping. 4. Source: reports on equity holdings, Statistical Annual Report of Incorporated Enterprises (Ministry of Finance), company reports; 5. Group average equals total including affiliates divided by the number of groups

The 163 firms, their subsidiaries, and affiliates add up to a total of 11,998 companies, representing 0.622 percent of all incorporated companies, excluding financial organizations.

Furthermore, the total assets of these companies account for 26.95 percent of the total assets of all incorporated companies, excluding financial organizations, and 25.20 percent of revenue. They account for one-quarter of the total assets of all corporations, excluding financial organizations, which shows that the six major groups carry a great deal of weight in the Japanese economy.

The average percentage of all incorporated companies, excluding financial organizations, accounted for by the six major groups, excluding financial organizations, is

0.10 percent for the number of companies, 4.99 percent for total assets, and 4.20 percent for revenue, and shows how large in scale they have become.

Furthermore, it is important to be aware that though there are instances in which two or more members of a presidents' club have provided 10 percent or more of the capital for the same company, the above figures have not been adjusted to reflect these overlaps.

(2) Changes in Position

A. The percentage of capital, total assets, and revenue of all incorporated companies in Japan, excluding financial organizations, accounted for by the 163 firms belonging to the six major groups, in FY 1981 and FY 1987, is shown in Table 19.

Table 19 - The Position in the Japanese Economy Held by the Six Major Groups (Presidents' Club Members) (In Percentages)

		Category	Capital	Total Assets	Revenue
Category		Fiscal Year			
Six major group total		1981	14.57	15.10	15.78
		1987	15.19	13.28	14.68
	Subtotal for former zaibatsu groups	1981	6.37	6.67	7.38
		1987	6.68	5.63	6.46
	Subtotal for bank-centered groups	1981	8.20	8.43	8.40
		1987	8.51	7.65	8.22
Non-financial corporations		—	100.0	100.0	100.0

Notes: 1. Companies engaged in the business of finance have been excluded. 2. Adjustments have been made in the subtotals for companies belonging to more than one group. 3. Source: securities reports, Statistical Annual Report of Incorporated Enterprises (Ministry of Finance), company reports

The total capital for the six major groups, which was 14.57 percent in FY 1981, had increased, though only by 0.62 percentage points, to 15.19 percent, by FY 1987. However, total assets decreased from 15.10 percent to 13.28 percent, and revenue, from 15.78 percent to 14.68 percent (1.82 and 1.10 percentage points, respectively).

On the other hand, the position of the 163 firms and their subsidiaries and affiliates in the Japanese economy, has declined since FY 1981 in terms of revenue (from 27.63 percent to 25.20 percent), but in terms of capital and total assets, it has increased from 30.75 percent to 32.03 percent, and from 23.16 percent to 26.95 percent, respectively (see Table 18).

Furthermore, the position of the 163 firms in the six major groups in the Japanese economy seems to have fallen somewhat. However, when one includes their subsidiaries and affiliates, it becomes impossible to make a clear-cut statement about a decline.

B. To discover what lies behind the decline in the position of the members of presidents' clubs of the six major groups in the Japanese economy, from the standpoints of total assets and revenue, we investigated the relative importance of manufacturing and nonmanufacturing companies and their growth rates. The results are shown in Table 20.

Table 20 - Ratio of Manufacturing and Non-Manufacturing Firms in the Six Major Groups (Presidents' Club Members) and Growth of Manufacturing and NonManufacturing Industries

	Percentage accounted for by manufacturers not engaged in finance (FY 1987)			Growth of Manufacturing/Non-Manufacturing Firms (FY 1987 divided by FY 1981)								
	Capital	Total Assets	Revenue	Manufacturing			Non-Manufacturing			All Non-Financial		
				Capital	Total Assets	Revenue	Capital	Total Assets	Revenue	Capital	Total Assets	Revenue
Category												
Six major groups	76.74	57.57	37.08	1.50	1.26	1.16	1.83	1.55	1.19	1.57	1.37	1.18
	(80.05)	(62.57)	(37.83)									
All non-financial firms	40.74	31.75	29.16	1.50	1.33	1.15	1.51	1.70	1.32	1.51	1.56	1.27
	(40.79)	(37.25)	(32.19)									

Notes: 1. Numbers in parentheses represent percentages for FY 1981. 2. Source: securities reports, Statistical Annual Report of Incorporated Enterprises (Ministry of Finance), company reports

Practically the same growth rate in revenue can be seen in manufacturers belonging to the six major groups as in all incorporated manufacturers. However, the growth rate in revenue for nonmanufacturing companies belonging to the six major groups is lower than that of all incorporated companies. Furthermore, since the relative importance of manufacturers, which have experienced little growth, is large, the position of the six major groups vis-a-vis all incorporated companies has declined.

The percentage of the total revenue of the six major groups accounted for by general trading firms is shown in Table 21. The revenue from general trading firms accounts for approximately half (56.0 percent in FY 1981, 53.0 percent in FY 1987) the revenue of the six major groups.

Table 21 - Percentage of Revenue for the Six Major Groups Accounted for by General Trading Firms and Growth in Revenue for Other Firms

		Revenue Growth (FY 1987 divided by FY 1981)		
Group Category	Percentage of Revenue Accounted for by General Trading Firms	General Trading Firms	Non-General Trading Firms	Non-Financial Firms
Former zaibatsu groups	55.2	1.02	1.24	1.11
	(59.8)			
Bank-centered groups	51.3	1.21	1.27	1.24
	(52.7)			
Six major group average	53.3	1.12	1.26	1.18
	(56.2)			

Notes: 1. Companies engaged in the business of finance have been excluded. 2. Figures representing the percentage of revenue accounted for by general trading firms are from FY 1987; figures in parentheses are from FY 1981. 3. Source: securities reports, company reports

Comparing the trends in revenue of general trading firms and other types of firms, general trading firms' revenue has grown only by a factor of 1.12 during this period, while that of group members in other types of business has grown by a factor of 1.26, not much different from the overall growth rate for corporations of a factor of 1.27 (see Table 20).

In other words, that the revenue of general trading firms has not appreciably increased is the main factor behind the decline of the importance of the six major groups. This lack of increase in revenue may be due to the effect of the high yen and the low price of crude oil on general trading firms in the six major groups. Their revenue from raw fuel imported from overseas decreased significantly. Another possible reason is that although the percentage of overall imports accounted for by products has increased, the general trading firms' share in these is small.

The growth rate of total assets for manufacturing and nonmanufacturing firms is shown in Table 20. Total assets for manufacturing firms in the six major groups showed a growth below the nationwide rate and, combined with the fact that there was little growth of total assets for nonmanufacturing firms, contributed to the decline in the position of group members.

In terms of capital, the importance of the six major groups has increased. This is due to the fact that though the manufacturing firms carry a great deal of weight in the six major groups, their capital has grown at the same rate as all incorporated companies, while the growth rate in capital for nonmanufacturing companies has significantly exceeded the rate for all incorporated companies. Behind this may be the fact that group members have increased capital by issuing convertible bonds, reflecting gains in stock.

However, capital is not necessarily the appropriate index to use when determining the overall economic strength of a company. We can see from the figures on total assets and revenue, that the position of the six major groups, when viewed in terms of presidents' club members, has declined slightly, and that changes in industrial structure have had a significant effect on this decline.

In terms of total assets, the position of presidents' club members in the Japanese economy has declined. But if we include their subsidiaries and affiliates, we find that it has increased. The reason for these divergent trends may be that presidents' club members are in the process of restructuring via the operations of their subsidiaries and affiliates.

7. Conclusion

(1) The six major groups are not corporate groups like the prewar *zaibatsu*, which had a pyramid-shaped administrative structure centered around a holding company. These are companies in various types of business which have maintained their individuality, while forming groups in which relationships, such as the establishment of presidents' clubs, the cross-holding of shares, and the assignment of executives, are flexible. Furthermore, transactions between members of the same group do not necessarily account for the majority of all group members' transactions.

(2) The ties between members in the six major groups were weaker in 1987 than in 1981. The average equity share held by group members and the cross-holding ratio

declined from 1.78 percent to 1.52 percent, and from 25.47 percent to 22.65 percent, respectively. The percentage of group members receiving assignees and of assigned executives fell from 72.53 percent to 67.69 percent, and from 8.69 percent to 7.13 percent, respectively. On the other hand, shareholding relationships between group members increased in frequency from 50.64 percent to 53.81 percent.

The reasons behind the decline in the average shareholding rate and the cross-holding rate may have been the following: (1) the disposal of stock held by financial organizations, excluding insurance companies, which took place as a result of the revision of Article 11 of the Anti-Monopoly Law in 1977, (2) the introduction of limitations on the percentage of shares held in Article 9, Section 2 of the same law, (3) companies which had previously not had close connections with a group joined presidents' clubs, but companies established through group funding withdrew from presidents' clubs, and (4) though there was a great increase in capitalization, such as the issuing of convertible bonds, group members did not respond to that by acquiring shares.

Therefore, intragroup ties seem to have weakened slightly but, in view of the increase in the shareholding relationship frequency, the trend in relationships resulting from intragroup shareholding appears to be increasing slightly.

(3) As for the position of banks and general trading firms belonging to groups, the equity share of banks in member companies is decreasing, as is the importance of their financing of corporate fund raising. The amount of borrowing dependence on banks by members of the same group continues to decrease.

On the other hand, banks own shares in almost all member companies, and their equity share is even higher. The number of companies receiving assignees from banks remains virtually unchanged, while the percentage of assigned executives is actually increasing. Banks continue to have a close relationship with group members through commissions for corporate bonds, the issuing of foreign bonds, information services, and consulting. Furthermore, banks perform an executive function for many of the groups, and oversee the arrangements for various types of meetings.

Thus, although the function of banks within groups is in transition, banks continue to play a nuclear role in the groups.

The position of general trading firms differs in each group. However, the percentage of shareholding in and the assignment of executives to group members is considerably lower than that of banks, and is declining. Possible reasons for this are the fact that the relative importance of general trading firms in internal and external transactions has declined due to the decline in their financial role, decreases in revenue from raw fuel, and an increase in imported products. There is also the effect of the 1977 introduction of Article 9, Section 2 in the revision of the Anti-Monopoly Law to be taken into consideration.

(4) Looking at the activities of the six major groups, at the presidents' club meetings there continues to be an exchange of general information, as well as deliberation on and decisions about publicity, the administration of trade names and trademarks, and charitable contributions. In some of the groups, members have established joint capital companies for the purpose of rebuilding a member company which is doing poorly, or venturing into new areas of business.

Another type of activity which we have recently noticed is study conferences held by the groups on large-scale projects such as the New Kansai Airport and the Tokyo Bay Coastal Development Project, and on new technologies, such as biotechnology. These conferences provide an opportunity for cooperation between companies engaged in different types of business, as well as an opportunity for transactions and new operations, contributing to a close relationship between group members.

(5) Since the nature of corporate fund-raising has been changing recently, and fund-raising from the capital market has become more important, we examined the relationships between the six major groups and securities firms in this survey.

The four leading securities firms are not group members. However, there is a tendency for financial organizations belonging to groups to own shares in and to finance particular securities firms and, when group members issue corporate bonds or stocks, for specific securities firms to be the main underwriters for this type of transaction.

This connection between group members and securities firms is thought to be based on the traditional relationship between securities firms and banks belonging to groups, and we are interested in seeing how this relationship between securities firms and groups develops in the future.

(6) The position of the six major groups in the Japanese economy (in FY 1987), measured by the percentage of the total assets and revenue of all incorporated companies, excluding financial organizations, accounted for by the group members, has declined since the previous survey (FY 1981) from 15.10 percent to 13.28 percent, and from 15.78 percent to 14.68 percent, respectively. One of the main reasons for this may be that many of the group members are engaged in manufacturing, including the so-called "smokestack" industries. (These manufacturing firms accounted for 57.57 percent of total assets and 37.08 percent of revenue in FY 1987, in contrast to 31.75 percent and 29.16 percent for all incorporated companies.) The other reason may be that few of the members are nonmanufacturing firms, which are experiencing a high growth rate in conjunction with changes in the industrial structure of the Japanese economy. A major factor for the decline in the percentage accounted

for by the revenue of the six major groups is that the revenue of general trading companies, which carries a great deal of weight in the six major groups, grew very little because of the high yen and cheap crude oil.

On the other hand, when we include subsidiaries and affiliates as group members, we see that though revenue decreased from 27.63 percent to 25.20 percent, total assets increased from 23.16 percent to 26.95 percent. Therefore, though the position of the six major groups may have declined when we look only at the group members, when we include subsidiaries and affiliates, we cannot state unequivocally that their position has declined.

The importance of the six major groups in the Japanese economy remains significant and, when we consider the fact that all of the members are leading firms in their respective types of business, their influence remains, and cannot be ignored.

(7) It will be interesting to see how the six major groups, which are entities particular to Japan in terms of scale and structure, will cope with changes in the industrial structure of the Japanese economy, and with internationalization.

Our committee intends to continue with its efforts to discern the status of groups from the standpoint of anti-monopoly policy-making, and recognizes the necessity of continuing to examine the functions and the roles of these groups.